FEDERAL RESERVE BANK *of* NEW YORK

COMMUNITY DEVELOPMENT

SIZING THE CDFI MARKET: UNDERSTANDING INDUSTRY GROWTH

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KEY TAKEAWAYS

- The Community Development Financial Institution (CDFI) industry has seen significant growth over the last five years in both the number of certified CDFIs, which increased from 1,066 to 1,487, and total assets, which nearly tripled for CDFI banks and credit unions.
- The CDFI industry holds at least $452B in total assets as of Q1 2023. Of that, credit unions hold about $300B (66%), banks hold $118B (27%), and loan funds hold $35B (8%).[1]
- While credit unions hold the highest share of total assets, loan funds make up the largest share of certified CDFIs by count at 39% (582 out of 1,487 total).
- The sharp increase in the number of certified CDFIs started in 2019 and was primarily driven by newly certified CDFI credit unions. Between 2019 and 2023, 239 of the 402 newly certified CDFIs were credit unions. Of those, 88 are headquartered in Puerto Rico.
- The main driver of the growth in total assets has been newly certified entities; CDFI banks and credit unions certified between 2018 and 2023 collectively hold $190 billion in assets as of Q1 2023.

1 Percentages do not add up to 100 due to rounding.

Introduction

The Community Development Financial Institution (CDFI) industry has seen remarkable growth over the last five years. Since 2018, industry assets have tripled to $452 billion, and the number of CDFI-certified entities has risen by 40%. While loan funds continue to comprise the largest share of CDFIs by type of institution, asset growth in the industry has been driven by CDFI depository institutions, particularly those that are newly certified. Of the $265 billion increase in assets that CDFI credit unions and banks held between 2018 and Q1 2023, nearly 70% came from institutions that were newly certified in that period. CDFI banks and credit unions also appear to be the largest individual CDFIs by assets; the largest CDFI is a credit union with about $17 billion in assets. These findings are relevant since they may impact the development of a secondary market in loans originated by CDFIs.

This paper aims to summarize the state of the industry, break down the various institution types, and describe the industry's significant growth over the past five years. This is the first in a series of briefs on CDFIs and the development of a secondary market for loans originated by these institutions.

Brief History of the CDFI Ecosystem

CDFIs were designated under the 1994 Riegle Act[2] (the act), which created the CDFI Fund (CDFI Fund, or the Fund), a sub-agency of the US Treasury Department. The act states that "many of the Nation's urban, rural, and Native American communities face critical social and economic problems arising in part from the lack of economic growth, people living in poverty, and the lack of employment and other opportunities" and that

> ***"restoration and maintenance of the economies of these communities will require coordinated development strategies, intensive supportive services, and increased access to equity investments and loans for development activities, including investment in businesses, housing, commercial real estate, human development, and other activities that promote the long-term economic and social viability of the community."***

CDFIs were designated under the act to achieve this goal by providing financing to households, businesses, and real estate transactions in low- and moderate-income (LMI) communities throughout the country.

2 H.R.3474 - 103rd Congress (1993-1994), *"Riegle Community Development and Regulatory Improvement Act of 1994," September 23, 1994.*

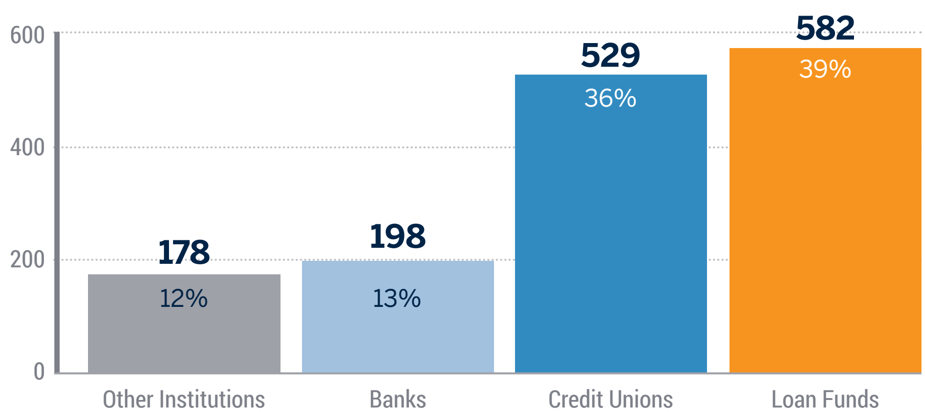
The CDFI Fund manages various federal programs that award financial assistance to CDFIs on a competitive basis and that help advance their respective missions. CDFIs also leverage capital from banks, government agencies, philanthropy, and other investors.[3]

Size of the Industry

As of May 2023, there were 1,487 certified CDFIs in the United States.[4] Loan funds (582) were the most common of these institutions, followed by credit unions (529). Banks (198) and an assortment of other institution types, such as holding companies (162) and venture capital firms (16), make up the remainder of these institutions (Figure 1). Geographically, these entities are distributed across the country, with a particular concentration in California and the Mississippi Delta.[5]

Loan funds make up 39% of all CDFIs

Figure 1: Number of certified CDFIs as of Q1 2023



Source: *Authors' calculations. Data from CDFI Fund.*

3 *For additional background on the CDFI industry, its history, and current challenges, see "*An Overview of Community Development Financial Institutions*" in* Consumer Compliance Outlook.

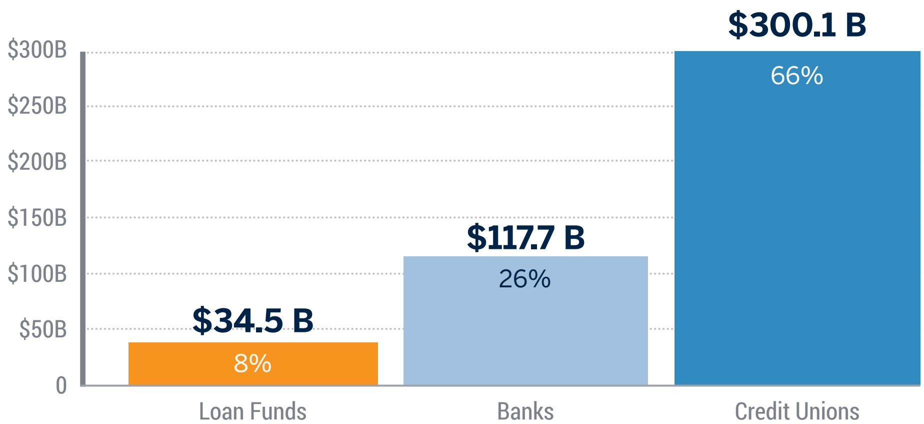
4 *These values are calculated using the list of certified CDFIs provided by the CDFI Fund as of May 2023. We removed three institutions that had recently gone through mergers or acquisitions.*

5 *See the Figure Appendix.*

Collectively, these institutions held at least $452B in assets as of Q1 2023.[6] In aggregate, CDFI credit unions held the most, with a combined $300B in assets.[7] By comparison, banks held $118B,[8] and loan funds held just $35B (Figure 2).

Credit unions hold 66% of all CDFI assets as of Q1 2023

Figure 2: Assets by CDFI type, in billions



Source: *Authors' calculations. Data from CDFI Fund, Q1 2023 call reports, 2020 Form 990s.*

In examining CDFIs by median asset size, we find that the CDFI banks are the largest, with a median asset size of around $335MM.[9] Credit unions are about half as large as banks, with $175MM in assets on average. Loan funds, by contrast, are typically much smaller, with just $14MM in assets (Figure 3). Credit unions are generally smaller than banks, so it is not surprising that this pattern is repeated for CDFIs. For loan funds, part of their relatively small size may result from challenges of scaling. Unlike banks, they tend to be non-profits and thus cannot raise traditional equity capital, and unlike both banks and credit unions, they do not take deposits. Loan funds instead must rely on low-cost loans, grants, equity equivalent investments, and government funding to grow, which makes it challenging for them to scale up rapidly.

6 *This is a floor estimate. For example, our estimate for loan fund assets uses 2020 Form 990s, and loan funds have likely grown since then. See Data Appendix for information on how all asset values were calculated*

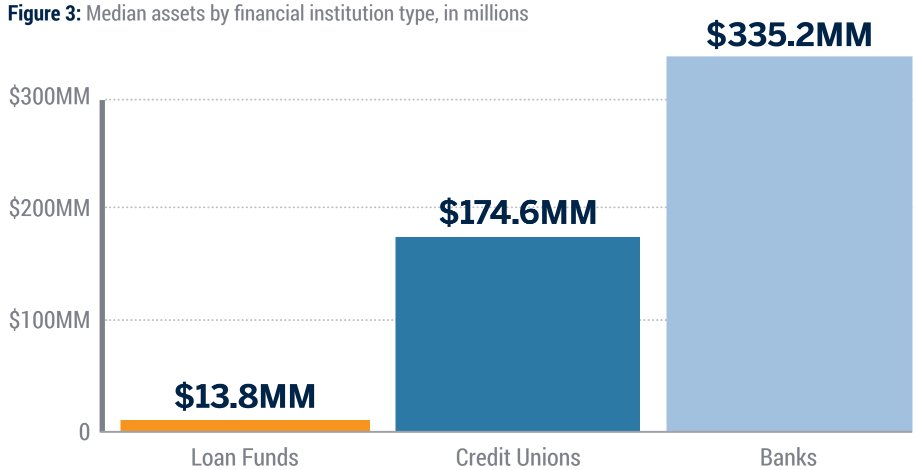
7 *This total includes $11B in assets from CDFI cooperativas regulated by COSSEC in Puerto Rico. Estimate was obtained via email from COSSEC.*

8 *Bank holding companies are not included in these or the following asset calculations.*

9 *This median does not include the CDFI cooperativas in Puerto Rico, since we obtained only an aggregate number from COSSEC.*

The median assets held by a typical CDFI varies substantially by the type of institution

Figure 3: Median assets by financial institution type, in millions



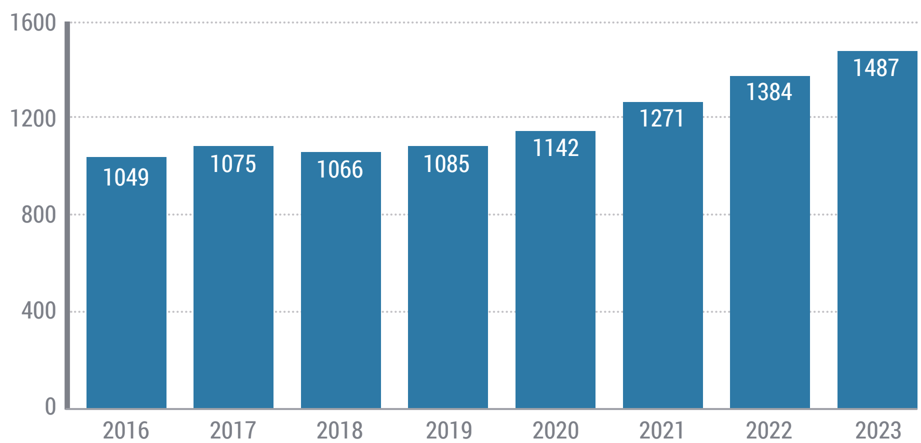
Source: Authors' calculations. Data from CDFI Fund, Q1 2023 call reports, 2020 Form 990s.

Growth of the Industry

The CDFI industry has grown considerably over its history, especially in the last few years. In 2000, the CDFI Fund listed around 430 institutions as CDFIs.[10] By 2016, that number had grown by almost 250%, to 1,049 institutions. The total remained mostly flat between 2016 and 2019 but grew another 37% between 2019 and 2023: from 1,085 to 1,487 (Figure 4).[11] While these new CDFIs can be found around the country, much of the growth since 2019 has been concentrated in Puerto Rico, California, the Mississippi Delta, and the southeast broadly.

The number of CDFIs has grown by nearly 40% since 2019

Figure 4: Number of certified CDFIs



Source: Authors' calculations. Data from CDFI Fund.

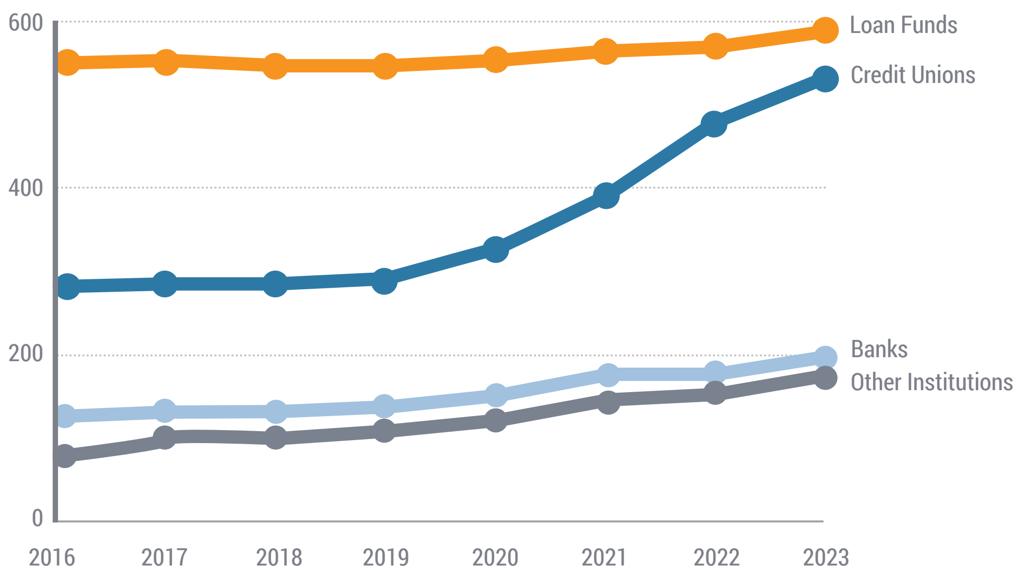
10 CDFI Fund, "Fiscal Year 2000 Report," retrieved as instructed by the CDFI Fund by email.

11 We calculated these values using historical lists of certified entities provided by the CDFI Fund.

A considerable portion of the growth in the number of CDFIs can be attributed to credit unions becoming certified. Between 2019 and 2023, the number of CDFI credit unions almost doubled, from 290 to 529. While less dramatic, the number of banks also increased, from 124 to 198. The number of loan funds grew by relatively less, from 548 to 582 (Figure 5). For banks and credit unions, the vast majority were already well-established institutions that elected to obtain certification, rather than new institutions forming with the intent of becoming CDFIs. More than 70% were established more than 50 years prior to becoming certified.

The number of CDFI credit unions has risen considerably since 2019

Figure 5: Count of CDFIs by institution type over time

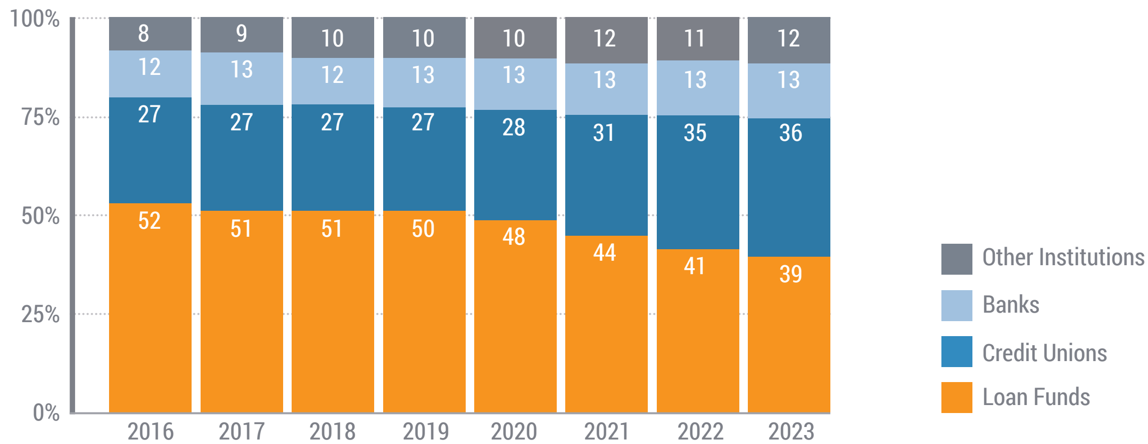


Source: *Authors' calculations. Data from CDFI Fund.*

In percentage terms, loan funds went from making up half of CDFIs in 2019 to less than 40% by 2023. By contrast, the proportion of CDFIs that are credit unions rose from around a quarter in 2018 to over a third in 2023 (Figure 6).

Credit unions make up an increasing proportion of CDFIs

Figure 6: Percent of CDFIs made up by given institution types over time

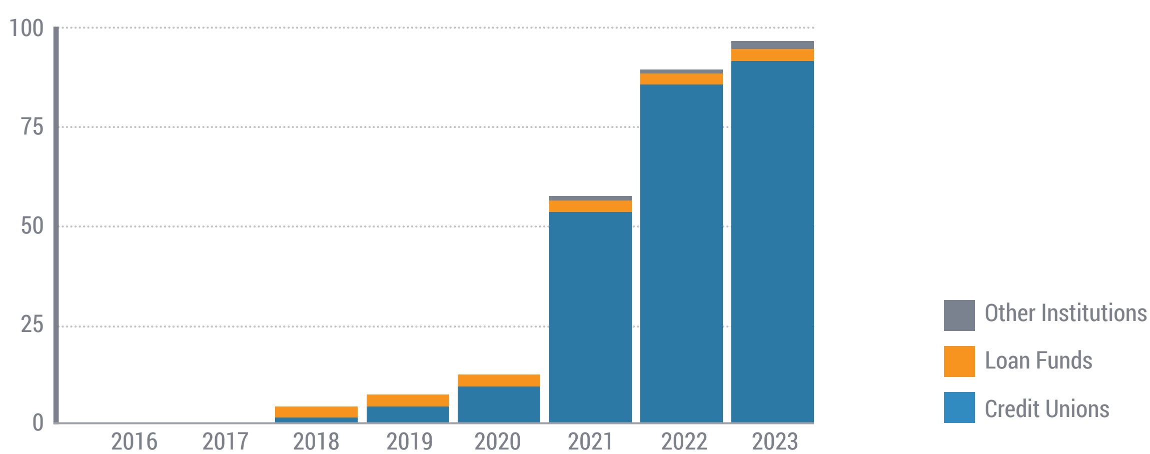


Source: Authors' calculations. Data from CDFI Fund.

A portion of the growth of CDFI credit unions is explained by a dramatic increase in the number of CDFI credit unions in Puerto Rico. Of the 239 new credit unions certified as CDFIs between 2019 and 2023, 88 are in Puerto Rico (Figure 7). The rapid growth could be attributed to

The number of CDFI credit unions in Puerto Rico has increased substantially

Figure 7: Number of CDFIs by type in Puerto Rico



Source: Authors' calculations. Data from CDFI Fund.

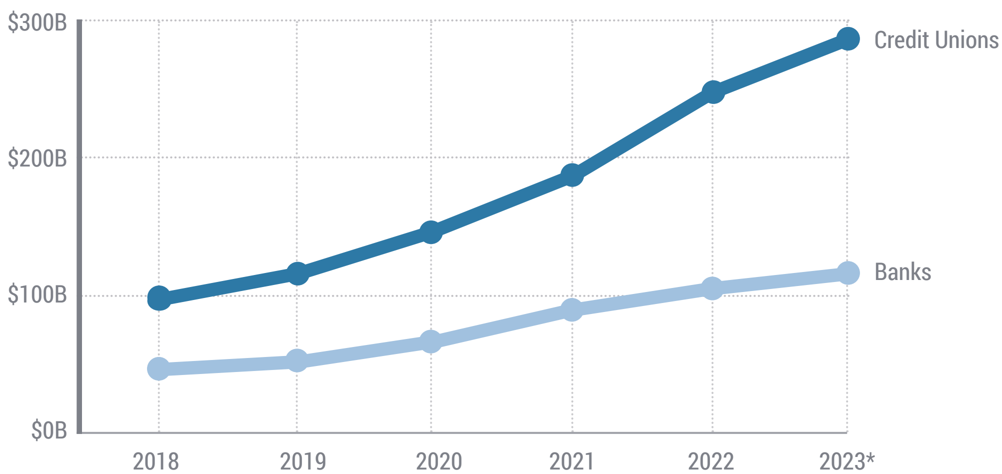
the Puerto Rico CDFI Initiative,[12] an outreach and capacity-building effort led by Inclusiv, the trade association for community development credit unions, along with support from other organizations. The initiative provided training and technical assistance to local credit unions, referred to as *cooperativas*, in order to apply for and receive CDFI certification. With CDFI certification, and subsequent access to awards and programs available from the CDFI Fund, the *cooperativa* network intends to expand its technical and financial capacity to help support its membership, many of whom live in low-income census tracts.[13]

Growth in Assets

This growth in the number of CDFIs is matched by the growth in the assets held by the industry.[14] Between 2018 and Q1 2023, we calculate that the assets held by non-Puerto Rican CDFI credit unions tripled, from around $96B to $289B.[15] The assets held by CDFI banks also more than doubled, increasing from $46B to over $118B (Figure 8).

Assets held by CDFI credit unions and banks have increased

Figure 8: Assets as reported on call reports, in billions.



Source: *Authors' calculations. Data from CDFI Fund and 2018-2023 call reports.*
**2023 value is as of Q1, not year end*

This increase in the assets held in aggregate by banks and credit unions is due in part to their increasing size on the institution level. The median CDFI credit union has grown from $109MM to $175MM since 2019, while the median CDFI bank has grown from $282MM to $334MM.

12 Inclusiv, *"Our Commitment to Puerto Rico."*

13 *Ibid.*

14 *All calculations are net of institutions that no longer hold CDFI certification as of May 2023. See the Data Appendix for additional information.*

15 *This growth measure does not include the total assets of the CDFI cooperativas on the island of Puerto Rico, since we were able to obtain the total only for 2023.*

This has been matched by the aggregate growth in the net worth of all CDFI credit unions and the equity of all CDFI banks.[16] The aggregate net worth of non-Puerto Rican CDFI credit unions has tripled from $10B to $30B, while the total equity of all CDFI banks has more than doubled from $5B to over $12B. Given this comparable growth, the ratio of net worth/equity to assets on an industry level has stayed consistent, mostly hovering just above 10% for both banks and credit unions.

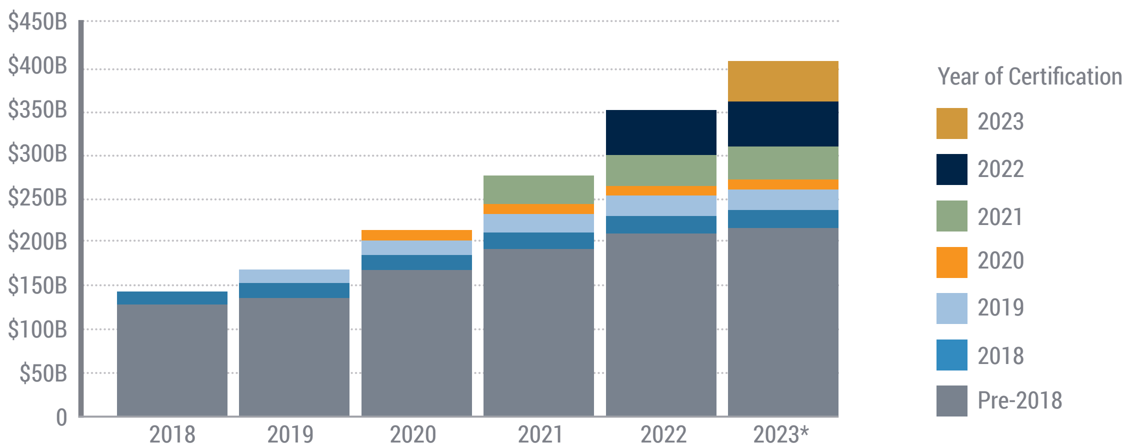
The combined assets of banks and credit unions (excluding loan funds and Puerto Rican credit unions, due to a lack of data on growth) nearly tripled between 2018 and 2023, from $142B to $407B. This represents a growth of over $265B, which we decompose into two drivers:

1. **The growth of CDFIs that were already certified prior to 2018;**
2. **The certification of new institutions as CDFIs.**

For the first driver, we have data on 304 CDFIs that were certified prior to 2018. Restricting our sample to just these CDFIs, we see that their assets grew by around $89B, from $128B in 2018 to $217B in 2023. This means that the other $177B in the growth of industry assets came from the other driver: the certification of new institutions as CDFIs. In other words, around 33% of the growth in the assets held by CDFIs between 2018 and 2023 can be attributed to the growth of already-certified CDFIs, while the other 67% of the increase in total assets was due to new institutions becoming CDFIs (Figure 9).

Nearly half of all assets in the CDFI industry are held by institutions that were certified since 2018

Figure 9: Assets held by CDFI banks and credit unions, by year of certification



Source: *Authors' calculations. Data from CDFI Fund and 2018-2023 call reports.*
**2023 value is as of Q1, not year end*

16 *Net worth for credit unions is defined by S&P as "net worth including undivided earnings, appropriation for non-conforming investments, other reserves, net income, CECL transition provision, subordinated debt or grandfathered secondary capital and adjusted retained earnings." For equity, we use total equity capital, which is defined in S&P as "total equity capital for the institution excluding minority interest. Reported under the General risk-based (GRB) regulatory capital rules."*

To demonstrate the importance of these new entrants: CDFI banks and credit unions certified between 2018 and 2023 collectively hold $190 billion in assets as of 2023, nearly half the total assets for the industry.[17]

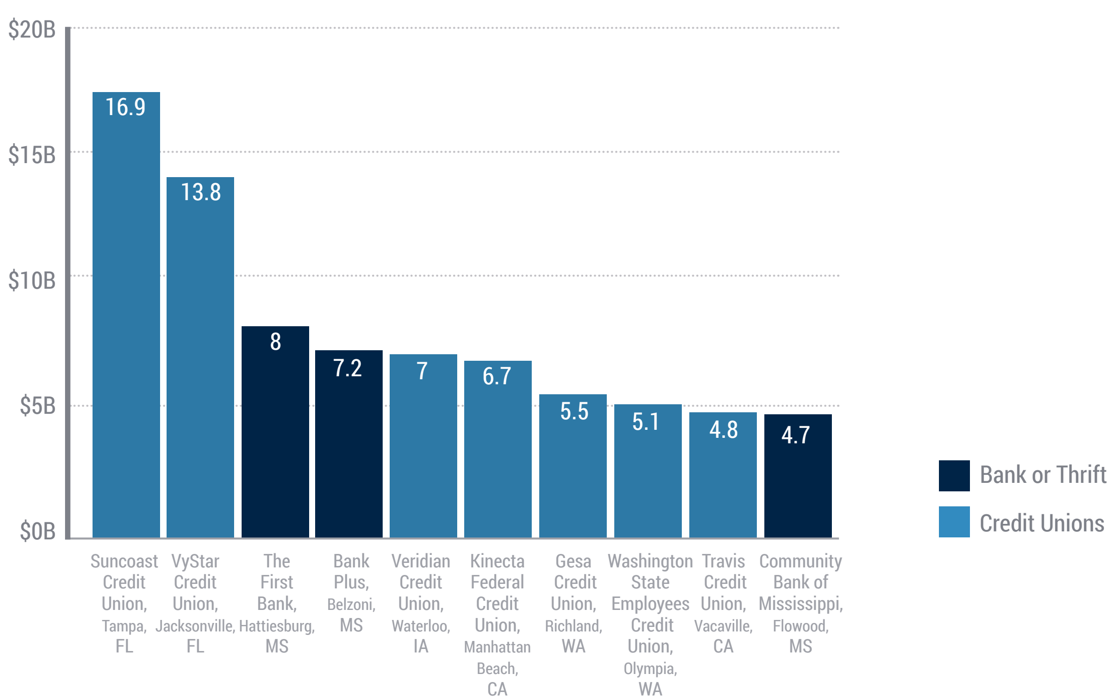
The years 2021, 2022, and 2023 in particular saw growth driven by new institutions becoming certified. In 2021, 68 new institutions were certified, with total assets of $32B. In 2022, 78 new CDFIs entered the industry, with $52B in assets. In the first five months of 2023, 69 institutions holding $45B in assets were newly certified. In all, a third of total assets held by CDFIs as of Q1 2023 are held by institutions that were certified between 2021 and 2023 alone.

What Are the Largest CDFIs?

The 10 largest CDFIs as of Q1 2023 were predominantly large credit unions, along with 3 banks (Figure 10). These large CDFIs ranged in size from Suncoast Credit Union's $17B in assets to Community Bank of Mississippi's $5B. They vary in their certification date, with about half certified prior to 2019 and the other half certified since then.

The top 10 CDFIs hold $79.6B in assets as of Q1 2023

Figure 10: Top 10 CDFIs by assets, in billions



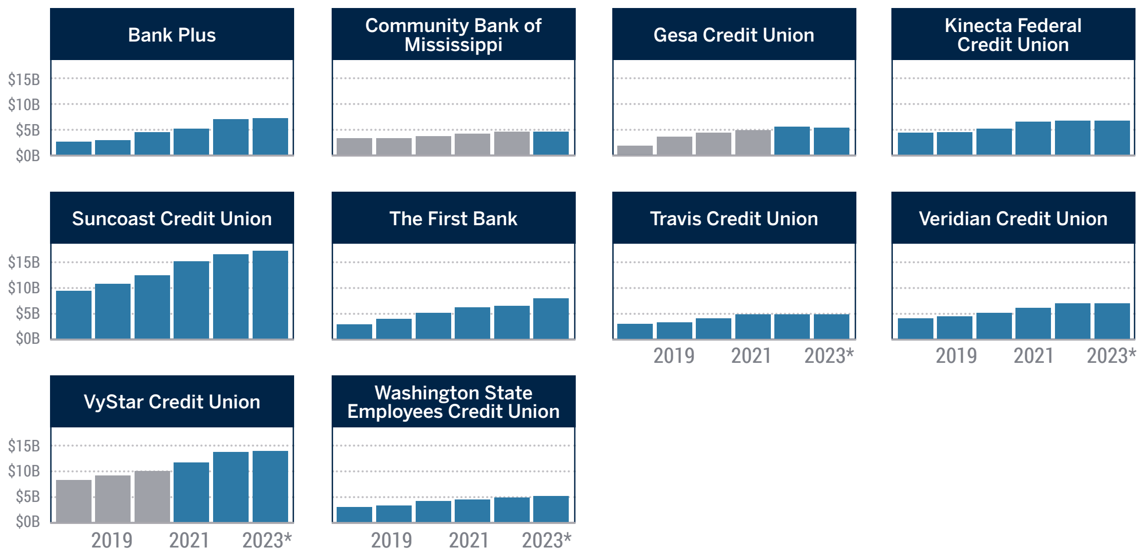
__Source:__ Authors' calculations. Data from Q1 2023 call reports. CDFIs identified via public certification list.

17 *This could be an underestimate, since we only track CDFIs certified as of 2023, not including those that were certified but no longer are. If, for example, a CDFI with $1B in assets was newly certified in 2020, but is no longer certified as of 2023, we would not include that $1B in our estimate of the assets held by institutions newly certified in 2020. See the Data Appendix for additional details.*

These institutions grew considerably between 2018 and 2023 (Figure 11). Suncoast Credit Union saw the most growth in absolute terms, increasing total assets by $7.6B (+82%). In percentage terms, The First Bank saw the most growth, at 172% (+$5B). On average, these institutions grew by $3.6B in absolute terms and 93% in percentage terms between 2018 and 2023.

Growth of largest CDFIs

Figure 11: Largest CDFIs as of 2023, by assets. Grey bars indicate the institution was not yet certified as a CDFI.



Source: *Authors' calculations. Data from 2018-2023 call reports. CDFIs identified via public certification list.*

**2023 value is as of Q1, not year end*

Follow-Up Questions/Areas to Explore

This descriptive analysis raises key questions. First, what led to the observed rise in the number of organizations seeking CDFI certification? One potential explanation is the Emergency Capital Investment Program (ECIP). Established by the Consolidated Appropriations Act of 2021 during the COVID recession, this Treasury program provided $9B directly to CDFIs and minority depository institutions (MDIs) to encourage expanded lending to low- and moderate-income communities.[18] While many newly certified institutions did not receive awards from the program,[19] it is possible that this program demonstrated that having a CDFI designation would open access to government support in future crises. Or, more generally, it may have increased overall knowledge of the CDFI designation as an option. In addition, those CDFIs that did receive funds from the program likely grew as a result, also contributing to the rise in total industry assets. A corollary to this question is why credit unions in particular have been so likely to seek certification in the last few years. Part of this might be attributed to the combination of two factors: a years-long effort to spread awareness of and promote CDFI designation among credit unions specifically, driven by organizations like Inclusiv,[20, 21, 22] and the opportunity presented by federal funding such as ECIP. The outreach and promotion campaign may have meant that community development credit unions were primed to apply for certification once the federal funding became available.

A second important question is how these newly certified institutions meet the various criteria set by the CDFI Fund for reporting and compliance. Critically, will these institutions be able to maintain their designation and serve the low- and moderate-income communities they are required to serve? Related to this is the question of how the industry will evolve. Will it continue to see an increase in the number of CDFIs and the assets they hold?

Additionally, it is prudent to understand how key financial ratios have changed over time for CDFI banks and credit unions, given the growth of the industry. Have particular types of institutions become more or less leveraged over the last five years? How has their liquidity evolved? How has the composition of the loan and investment portfolios of CDFI banks and credit unions changed over this time period? Understanding these questions and the underlying ratio analysis showing key trends will provide helpful background material as we research the secondary market for loans originated by CDFIs.

18 U.S. Department of the Treasury, *"Emergency Capital Investment Program: Investing for Impact."*

19 *Notably, 3 of the top 10 CDFIs by asset size did receive awards: Suncoast, BankPlus, and The First Bank.*

20 Inclusiv, *"416 Community development credit unions are CDFI-certified, representing a third of the CDFI industry"*

21 Inclusiv, *"Preserving and Growing Black Credit Unions"*

22 Inclusiv, *"The Year of CDFI CUs: The Ultimate Financial First Responders"*

All of these questions are related to perhaps the most important question for the industry: what does this increase in the number of CDFIs and the size of the industry mean for the expansion of lending to low- and moderate-income communities? Will this expansion translate into additional lending, and will this lending translate into more economic opportunity and security?

Conclusion

This analysis is the first step in understanding trends in the CDFI industry, including its size and the volume of loan originations, as well as the challenges faced by CDFIs as they serve their target markets and borrowers. In future work, the New York Fed's Community Development team will examine the origination and sale of various types of loans originated by CDFIs, including residential mortgages, small business loans, commercial real estate and multifamily loans, and secured and unsecured consumer loans.

Data Appendix

The asset calculations in this report are nuanced due to data availability. In this appendix, we describe in more detail how we calculated the numbers presented.

Obtaining asset numbers

The procedure for calculating asset numbers differed for depository institutions (banks and credit unions) and loan funds. To estimate assets for depository institutions, we first obtained a list of all CDFI banks and credit unions. We then collected the call reports from 2018 to 2023 for these banks and credit unions, using S&P Capital IQ Pro. For the 530 CDFI credit unions that were technically certified as of May 2023, we were able to match all but 90 to their call reports. Of those 90 for which we did not find a match, 88 were headquartered in Puerto Rico and do not appear in S&P Capital IQ Pro. This is because they are regulated by COSSEC, which is not a federal entity. COSSEC estimates that these *cooperativas* had $11B in total assets as of 2023. Of the final two that we could not match, one does not appear in S&P, though it appears to have less than $1MM in total assets based on our investigation. The other was acquired in 2022, and thus we removed it (leading to our count of 529 CDFI credit unions). Of the 200 banks that were technically certified, we were able to match all but 2 to their call reports. The two we were unable to match were both recently acquired (leading to our count of 198 CDFI banks).

For loan funds, unlike with depository institutions, there is no central database that contains asset information for these institutions. The best source for such information is Form 990s. Thus, we took 30 random loan funds that received awards from the CDFI Fund in 2020 and 30 random loan funds that did not receive such awards in that year. For each sample, we pulled asset information from their 2020 Form 990s. We then calculated the average assets for those two samples. For awardee loan funds, we calculated the average assets of the random sample to be $96.5MM. For loan funds that did not receive awards from the CDFI Fund in 2020, we found the mean assets for the random sample to be $23.5MM. To obtain an aggregate estimate, we multiplied these averages by the number of awardee and non-awardee loan funds, respectively. It is worth noting that this is likely an underestimate given the Rapid Response Program and other private sources of funding that have flowed to CDFI loan funds since 2020.[23, 24]

Institutions that are no longer certified

One of the key caveats to our analysis is that, for asset calculations, we only look at institutions that were certified as of May 2023. While this captures all institutions that are currently certified, regardless of when they obtained certification, it does not include institutions that were certified

23 CDFI Fund, *"CDFI Rapid Response Program."*

24 The U.S. Impact Investing Alliance, commissioned by the Federal Reserve Bank of New York, *"Corporate Support for Local Economic Development in Response to the Racial Justice Crisis: New Commitments by PayPal, Netflix, Twitter and Others."*

at some point but were no longer certified as of May 2023. Institutions that are no longer certified do not appear in the list provided by the CDFI Fund. Thus, our asset calculations for the years prior to 2023 are net of these no-longer-certified institutions and are underestimates of the total size of the industry in those years.

We were able to estimate the count of these no-longer-certified institutions by year. We did so by comparing the count of institutions in old certification lists, obtained using the Wayback Machine,[25] to the number of institutions listed as certified as of that year in our May 2023 list. For example, using the 2018 list of certified CDFIs, we see there were 416 bank and credit union CDFIs. In our May 2023 list, we have 341 banks and credit unions that report having been certified as of 2018 or before. This implies that there were at least 75 institutions that were certified in 2018 but were no longer certified as of 2023. We estimate this number to be 32 in 2019 and 26 in 2020. We do not capture the assets of these institutions in those years.

As expected, the number decreases as the year gets closer to 2023, since there is less time for institutions to lose certification. For 2021 and 2022, we do not see evidence of CDFIs going from certified to not certified.

Due to mergers, acquisitions, name changes, and location moves, it is hard to estimate the assets these institutions may have had with confidence. However, for 2018, of the 75 no-longer-certified institutions, we were able to find the assets for 36 credit unions and 3 banks. The total assets for those institutions in 2018 was $11B. Assuming the other 36 institutions for which we do not have data are similar, we would estimate total assets of around $20B for institutions that were certified in 2018 but had lost certification by 2023. This is a rough estimate based on strong assumptions and interpolation of missing values. It should be taken as a rough indication of the order of magnitude of the underestimate, rather than a precise value. Given that there were fewer such institutions in 2019 and 2020, we assume the underestimate for those years would be smaller. Ultimately, the estimate of the size of the industry in 2023 is unaffected by this nuance, the estimates for 2021 and 2022 are also likely unaffected, and the estimates for 2018 through 2020 are measurable but not drastic underestimates.

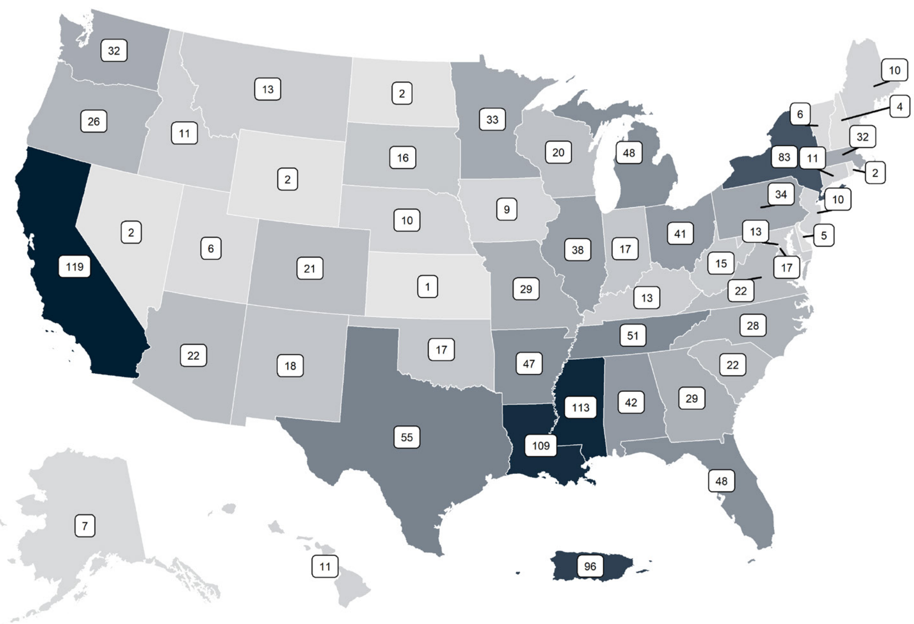
One related challenge is that there are some institutions that became certified, lost their certification, and then were recertified as of 2023. Ideally, we would only include such institutions' assets in the aggregate calculations for the years during which they were certified, excluding them in the years that they did not have certification. However, since we rely on the 2023 certification list, we are unable to do this and instead include them for all years. For example, an institution may have been certified in 2017, lost certification in 2019 and 2020, and then became certified again in 2021. If this hypothetical institution were still certified as of 2023, we would include its assets in our aggregate counts for all years, including 2019 and 2020 when it was technically not certified.

25 Wayback Machine

Appendix:

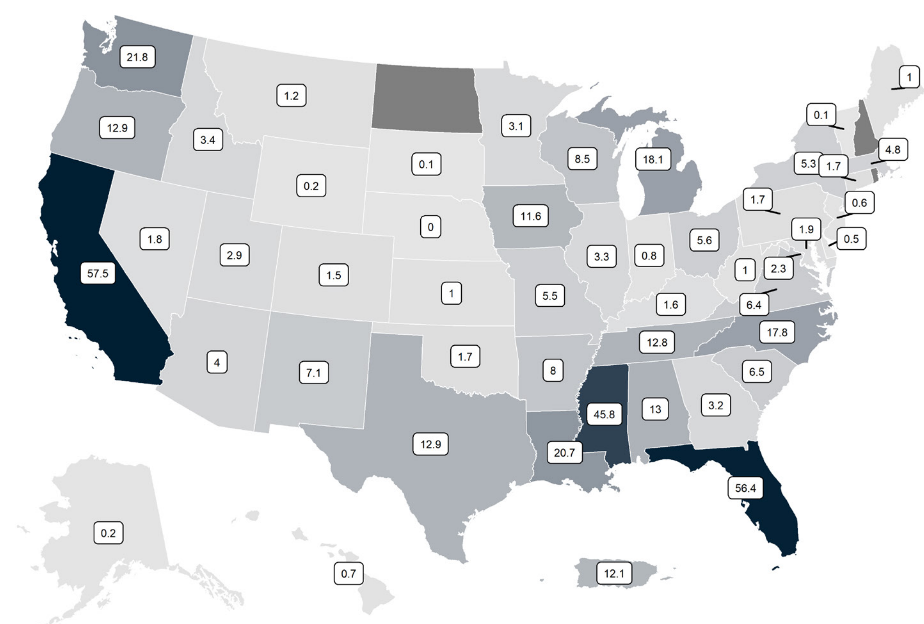
Geographic breakdown

Number of CDFIs by state as of 2023



Source: *Authors' calculations. Data from CDFI Fund.*

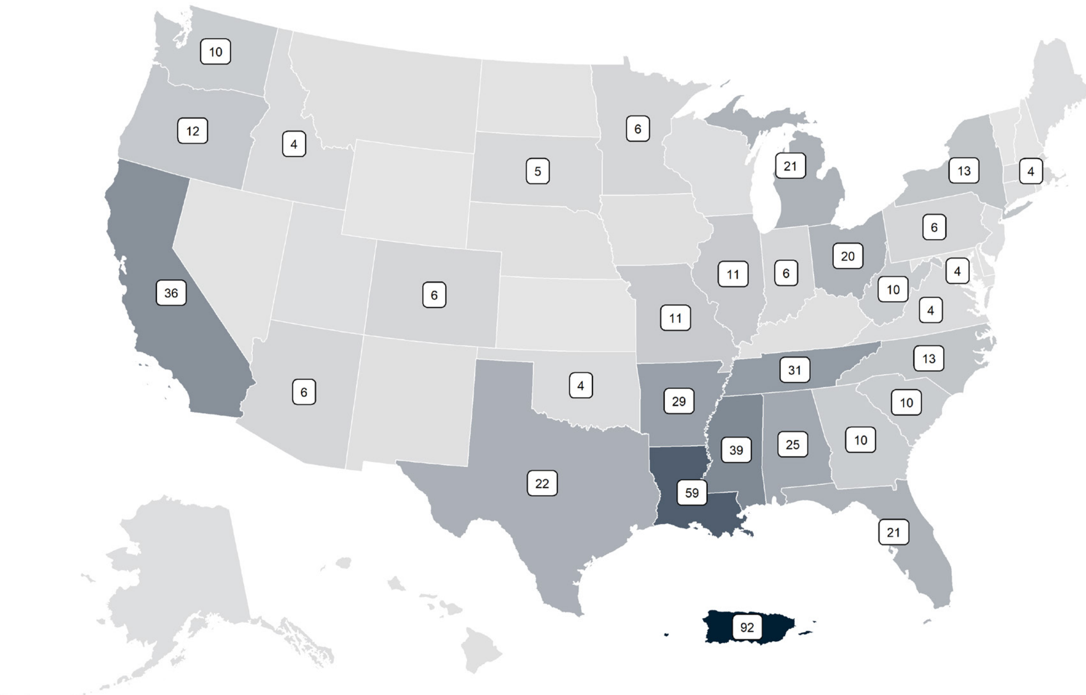
Total assets of all CDFIs by state as of 2023, in billions ($)



Source: *Authors' calculations. Data from CDFI Fund and Q1 2023 call report.*

Number of new CDFIs by state between 2019 and 2023

Number only labeled if more than 3 new CDFIs were certified in given state



Source: *Authors' calculations. Data from CDFI Fund.*

State	Total CDFIs	Change Since 2019	Total Assets	State	Total CDFIs	Change Since 2019	Total Assets
AK	7	3	$0.2B	MT	13	2	$1.2B
AL	42	25	$13B	NC	28	13	$17.8B
AR	47	29	$8B	ND	2	1	NA
AZ	22	6	$4B	NE	10	2	$0B
CA	119	36	$57.5B	NH	4	0	NA
CO	21	6	$1.5B	NJ	10	3	$0.6B
CT	11	3	$1.7B	NM	18	2	$7.1B
DC	17	4	$2.3B	NV	2	1	$1.8B
DE	5	1	$0.5B	NY	83	13	$5.3B
FL	47	21	$56.4B	OH	41	20	$5.6B
GA	29	10	$3.2B	OK	17	4	$1.7B
GU	2	NA	$0.2B	OR	26	12	$12.9B
HI	11	2	$0.7B	PA	34	6	$1.7B
IA	9	2	$11.6B	PR	96	92	$12.1B
ID	11	4	$3.4B	RI	2	0	NA
IL	38	11	$3.3B	SC	22	10	$6.5B
IN	17	6	$0.8B	SD	16	5	$0.1B
KS	1	0	$1B	TN	51	31	$12.8B
KY	13	2	$1.6B	TX	55	22	$12.9B
LA	109	59	$20.7B	UT	6	3	$2.9B
MA	32	4	$4.8B	VA	22	4	$6.4B
MD	13	1	$1.9B	VT	6	0	$0.1B
ME	10	3	$1B	WA	32	10	$21.8B
MI	48	21	$18.1B	WI	20	3	$8.5B
MN	33	6	$3.1B	WV	15	10	$1B
MO	29	11	$5.5B	WY	2	0	$0.2B
MS	110	39	$45.8B				

Source: *Source: Authors' calculations.*
Data from CDFI Fund and Q1 2023 call reports.